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Government
Publications

STATEMENT

[to the Legislature]

BY

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TREASURER OF ONTARIO

AND

MINISTER OF ECONOMICS

ON



THE CURRENT FISCAL SITUATION OF THE PROVINCE OF ONTARIO

OCTOBER 11, 1990

CHECK AGAINST DELIVERY


Over the past week we have been closely reviewing, with Treasury officials, the fiscal situation of the Province as we found it upon taking office. The Canadian and Ontario economies are in a recession, which is having a severe impact on the amount of revenue the Province expects to collect this year. In addition, there are a number of expenditure requirements which were not provided for by the last government in its April budget. These combined factors will result in a deficit of approximately \$2.5 billion for the current 1990-91 fiscal year.

This revised deficit forecast is substantially different than the \$23-million surplus projected on July 27th. My intention today is to be as open and frank as I can be in describing what is causing this rapid deterioration in our fiscal situation.

Later in the fall, the Government will be releasing a more detailed analysis on the outlook for the Ontario economy and therefore I will restrict my comments to the budget realities we face in this current year. It goes without saying that we anticipate lower economic growth and higher unemployment than was forecast in the April budget. As you can appreciate, with the volatility surrounding oil prices and interest rates and the resulting impacts on the U.S. and Canadian economies, the economic situation is uncertain.

Since the July 27th release of the First Quarter Ontario Finances, the year end forecast of revenues has dropped from \$44.7 billion to about \$43.7 billion. Almost all of this decline is directly attributable to a weakening economy.

Approximately \$450 million of the decline is in retail sales tax receipts, which are expected to drop to \$8.5 billion for the year. Lower sales in household furniture and appliances, general merchandise and automobiles comprise the major contributing factors behind this decline.



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Most of the rest of the drop in revenues is a result of lower receipts in Corporations Tax. The \$500-million decline now forecast in this revenue source is due to higher than anticipated refunds and lower corporate profits.

The forecast of Land Transfer Tax revenues has been reduced by \$100 million, due to lower sales and lower average unit prices. However, this decline has been more than offset by increased payments from the Federal Government, in respect of one-time adjustments of previous year's entitlements.

On the expenditure side of the ledger, an increase of approximately \$1.4 billion is anticipated from the levels reported in the First Quarter Ontario Finances which will put total expenditures around the \$46.1-billion mark this fiscal year.

The major components of this increase are:

- \$40 million for the costs associated with the September 6th election;
- an additional \$258 million associated with the increasing costs of the social assistance program, again directly attributable to a weakening economy;
- approximately \$400 million is required to honor a government guarantee arising from the sale of the Urban Transportation Development Corporation (UTDC) in 1986. The interest cost of the guaranteed bank loan is about \$1 million weekly and must be paid off to avoid further interest accumulations. This payment will add to the deficit; and
- another \$750 million in expenses not adequately provided for in the April budget.

Included in this latter category of expenditure increases are costs related to refinancing the Stadium Corporation of Ontario.

As is well known, the Skydome was the product of a public/private sector initiative entered into by previous Governments. Although it has resulted in a facility that is the envy of many other jurisdictions, the revenues being generated from its use are inadequate to cover the interest on bank loans taken out to pay for much of the structure. This debt now totals approximately \$300 million. Essentially, this debt load is too great and the Skydome's public and private sponsors must find a way to put more funding into the complex so that its borrowings are reduced to manageable levels. While we are confident that the private sector will participate in the refinancing, the Province also will be required to provide funds to put the Skydome on a more stable financial footing. Given that the refinancing will be decided through negotiations among the parties involved, obviously I cannot yet tell you exactly how much this will cost the Province.

Similarly, expenditures of the Ministry of Health are expected to be in excess of those forecast in the April, 1990, Budget. My colleague, Evelyn Gigantes, indicated last week that she had learned of significant spending pressures not cited in the deficit predicted just after the election. Included is higher utilization in the Ontario Drug Benefit Plan, OHIP and the Home Care program, and higher out-of-country payments for health services under OHIP. As well, the Health ministry will need funds to address the long-outstanding settlement of physician fees. The last physician fee increase was effective April 1, 1988, and there has been no settlement for 1989 or for the current year. Given these settlements will be decided through negotiations, it would be imprudent for me to indicate what this will cost.

Finally, extra provision is being made for a variety of other pressures spread across various ministries of government.

The fiscal situation has changed substantially since the April budget and we will report on it and the economic situation in greater detail in the weeks ahead. With the exception of one tax adjustment measure I am confirming today, the fiscal outlook I am presenting is the situation of the Province as we found it on assuming office this month.

We have inherited a fiscal and economic situation of some weakness. These are times that call for new ideas and fresh approaches. As a new government, it is not our job to find the funds merely to retain the status quo.

It is our intention to turn an objective eye to a review of all existing programs so that we can maximize our fiscal flexibility, strengthen our economy and assist those most adversely affected by today's economic downturn.

A crucial element of our economic recovery is to cancel the previous government's intention to tax on tax. This Government will not "piggy-back" the provincial sales tax on top of the federal goods and services tax (GST), should it become reality on January 1, 1991. This action will leave money in the taxpayer's pocket. This government is very concerned with the impact of the GST. As Premier Bob Rae has stated on other occasions, it is "the wrong tax, at the wrong time, imposed on the wrong people". The cost of this measure is estimated at \$70 million in forgone revenue in the current fiscal year and \$500 million in a full year.

1990-91 FISCAL OUTLOOK (\$ MILLION)

	<u>Budget</u>	<u>First Quarter</u>	<u>Current Outlook</u>
Revenue	44,536	44,536	44,536
Retail Sales Tax		-	(452)
Corporate Tax		-	(493)
Land Transfer Tax		(30)	(130)
Other		<u>169</u>	<u>237</u>
		44,675	43,698
 Expenditure	 44,506	 44,506	 44,506
Social Assistance		101	359
Election		-	40
UTDC		-	400
Other		<u>45</u>	<u>795</u>
		44,652	46,100
 Surplus/(Deficit)	 <u>30</u>	 <u>23</u>	 <u>(2,402)</u>
 No Tax on GST	 -	 -	 (70)
 Revised Surplus (Deficit)	 30	 23	 (2,472)

